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From State-Control
to EC Competence
Air Transport Liberalisation

DOLORES O'REILLY

RSC No. 97/33

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WP
321.0209
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EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

ROBERT SCHUMAN CENTRE

**From State-Control to EC Competence
Air Transport Liberalisation**

DOLORES O'REILLY

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Printed in Italy in July 1997
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Italy

Abstract*

Until 1987 air transport in the European Community was rigidly controlled by Member State governments, when the European Commission's third attempt to transfer competence for this industry to the European arena was successful. As traced in this paper, the transition did not result solely from intergovernmental bargaining, neither did the package of reforms eventually agreed by the Council of Ministers reflect domestic policy preferences. Instead the transfer of competence was largely caused by other mechanisms outside the direct control of Member State governments. Increases in intra-EC activity provoked demands for a Euro-level policy from the societal actors most adversely affected by maintaining the *status quo*. Societal actors - major businesses, consumers, potential new entrants - formed into transnational groups, forged alliances with the European Commission and pressurised for change. Confirmation by the European Court that the competition rules applied to this sector became another force for change. Additionally, the Commission exercised its powers under Article 89 to investigate anti-competitive practices by state-owned airlines. This suggests that theories stressing the pivotal power of Member State governments to control European policy processes may not be appropriate to explain changes in this particular sector; instead a modified form of neo-functionalism appears to be more consistent with transfer of competence to the Community.

* I am grateful to Claus-Dieter Ehlermann, Fritz Scharpf and Alec Stone Sweet for reading this paper in draft and for their helpful comments.

Introduction

Within the last decade control of the European Community (EC)¹ air transport sector has been transferred from Member State governments to the European arena. Although specific provisions for transport were made in the Treaty of Rome, the onus to act was negated by the inclusion of an Article 84 (1) which limited the policy remit to transport by rail, road and inland waterways. However, currently, liberalization is chiefly driven at the level of the EC. Member State governments have transferred their competencies to European authority. Consequently in many cases the licensed state-owned monopoly airlines have been exposed to commercial competitive pressures for the first time. Measures proposed by the Commission and eventually agreed by the Council of Ministers have eroded barriers to market entry. Why was this effort successful and the previous attempts to reform futile? In order to answer these questions this paper traces the policy process that led to the eventual approval of a package of liberalising measures by the Council in December 1987, analyses the determinants for change and relates the findings to two theories of integration: intergovernmentalism and modified neo-functionalism.

The paper has the following sections:

Section one: the relevant theoretical backdrop to this study.

Section two: an analysis of why international air transport has historically been so highly regulated and why the industry within the EC remained deadlocked against change for so long.

Section three: an examination of the causal measures - increases of transnational activity and new court rulings - which finally made the Member States recognise the costs of continuing to resist.

Section four: an examination of the policy process, through an analysis of how European institutions responded to the pressures for change and "forced" the Council to adopt a package of liberalisation measures.

Section five: conclusions.

¹Although the term "European Union" has been in use since the Maastricht Treaty, 1992, "European Community" (EC) is used throughout this paper as it remains the term mostly employed when describing activities covered by the Treaty of Rome.

Section One: Theoretical Backdrop

Two rival theories currently dominate the debate about how integration happens: intergovernmentalism and neo-functionalism. For the purpose of this paper, the theoretical debate focuses on one question:

"what accounts for the transference of authority to govern from the national level to the European arena?"

More specifically, how can the "Europeanization" of air transport be explained?

Intergovernmentalist approaches assert that states tend to be the dominant influence and control the rate of the integration process. The EC provides the interstate bargaining arena which reflects domestic political preferences. Supranational organisations, such as the European Commission and the European Court of Justice (ECJ) merely help the Member States realise their objectives. They pursue the integrative agendas of the dominant states or are reined in when they pursue their own objectives. Intergovernmentalists² would therefore not expect supranational institutions to play any independent or pivotal role in transferring control of air transport policy from the Member States to the EC. The findings of this empirical investigation challenge the intergovernmentalist perspective.

The process of air transport integration is better explained by a slightly revised form of neo-functionalism³, what the authors refer to as "modified neo-functionalism" theory (Caporaso and Stone Sweet, 1997; Sandholtz and Stone Sweet, 1997; Sandholtz 1997; and Stone Sweet 1997 forthcoming). This theory suggests that the causal mechanism is quite simple: increasing levels of cross-border transactions and communications by societal actors will increase the need or social demand for European-level rules and coordination. For these societal actors the lack of European rules and coordination will eventually be seen as an obstacle to the pursuit of their interests. Thus, the theory predicts that as the involvement of non-state actors in cross-border exchanges increases, so does the societal demand for integration. To the extent that supranational institutions meet the demands of these societal actors, integration is advanced and it can justly be said that "transactors" are a main causal force driving the integration process.

²See Hoffman, 1966; Moravcsik, 1991, 1993; Garrett, 1992 and Kilroy, 1996 as representative of the literature on intergovernmentalism.

³ See Haas, 1958; Lindberg, 1963; Lindberg and Scheingold, 1970; and Nye, 1968 as representative of literature on neo-functionalism.

Modified neo-functionalism does not completely ignore the role of Member State governments. It recognises that they have powerful material and non-material resources and diverse preferences and that they have a role to play in the policy process, but it does not accept that this provides a complete explanation of the outcomes. The integration process itself generates rules and organisational capacities which place both political and institutional constraints on governments, whilst simultaneously giving greater influence to a variety of non-state actors with a stake in the development of intra-EC transactions. Thus, although, inter-state bargaining plays an essential part in the process, the power of the Member States is curtailed by factors outside their control. In some instances, even a majority of the Member States have to accept decisions outside their vector of preferred outcomes.

Liberalisation of air transport provides a context to test these hypotheses. Although a majority of Member State governments strongly opposed transferring national competence to the EC, the Commission nevertheless succeeded in securing the adoption of a package of liberalising measures. It seems that intergovernmental bargaining alone cannot account for the substance or timing of this change. An alternative approach, modified neo-functionalism will be employed to examine how these changes occurred. In this case the societal actors will be those groups whose prosperity is dependent upon cross-border communications and exchange within Europe: major business users; consumers; non-scheduled airlines; and potential new entrants. The theory assumes that these transactors will exploit any opportunity which the European institutions can provide to achieve their goals. The framework adopted specifically focuses attention on the following areas:

- (i) How rising levels of cross border exchange led business and consumer groups to demand policy integration at European level;
- (ii) How the European Commission worked with these groups to fulfil their interests;
- (iii) How judgements by the European Court of Justice reinforced these pressures;
- (iv) How Member State governments recognised that continued reluctance to change would result in unacceptable costs.

The following examination of the air transport policy process in the EC will show to what extent this particular variant of neo-functionalism explains the changes which occurred.

Section Two: International regulation of Air Transport

The First Sixty Years

Historically, all modes of transport have experienced government regulation but the aviation industry has been more regulated than any other (Lissitzyn, 1968, p. 12). Regulation of international aviation began in 1919 when the International Air Convention gave states rights over the airspace above their territory. Governments immediately started controlling their own airspace and negotiating bilateral agreements as the need arose (see Sawers, 1987; Button and Swann, 1991; and Doganis, 1991 for a full discussion on the reasons for international regulation).

The Chicago Convention of 1944 confirmed the principle of national sovereignty over airspace and in consequence the pre-war system of bilateralism became also the pattern for the post-war world (O'Reilly, 1993, p11). Highly protectionist bilateral agreements (Doganis, 1991, p. 29) resulted in the "virtual elimination of competition" (House of Lords, 1980, p. 25).

Thus, air transport has been dominated by state regulation from its inception. Competition between airlines operating scheduled services has largely been prevented, with competition restricted to non-scheduled services. The industry has been controlled by regulators and not by airline management. This was the case in the USA until 1978 when the Administration deregulated its domestic air transport sector and in the European Community until the industry was liberalised by a series of measures in the period between 1986 and 1992. (See Caves, 1962; Levine, 1965; Jordan, 1970; Douglas and Miller, 1974; Civil Aeronautics Board Report, 1975; US DOT, 1978, Doc 28848; Kahn, 1978; Stenier, 1983; Dempsey, 1988; Giallereto, 1988; O'Reilly, 1995 for full discussion of causes and consequences of US domestic deregulation).

European Inertia

Domestic deregulation in the United States had little immediate impact in the EC. Although transport was one of only two sectors of the economy given its own Title in the Treaty of Rome, Article 84(2) provided that:

The Council may, acting unanimously, decide whether and to what extent and by what procedure appropriate provisions may be laid down for sea and air transport. (Article 84 (2) Treaty of Rome)

Thus, the Treaty appeared to leave the whole area of air transport policy-making to the discretion of the Council, an interpretation reinforced later by the specific exclusion of aviation and shipping from the provisions of the regulation (17/62) giving effect to the Treaty's competition rules.

This fostered inaction as all the Community flag-carriers were still state-owned and functioned largely as an arm of government. Political and social interests predominated over commercial considerations: airlines were often obliged to serve non-profitable routes; to purchase locally manufactured aircraft regardless of their suitability; and to adopt government employment policies (for example see the Irish Aviation Policy, 1994). Most, if not all, the scheduled carriers frequently made heavy losses - amounting, for instance, to \$700 million in 1981 (CEC, 1984, p. 11) - and *"the desire to avoid any increase in these deficits increase[d] the reluctance of governments to expose their airlines to further competition"* (CEC, 1984, p. 22). Thus, *"the general pattern was one of protectionism, collusion and anti-competitive practice [and it was often] difficult to tell where the management of the airline ended and the state began"* (Kassim, 1996, pp. 113-4).

Air transport was subject to international regulation which was another barrier to change. The Chicago Convention had established an International Civil Aviation Organisation (ICAO) as a specialised agency of the United Nations to define standards and rules for the industry worldwide. At the regional level an intergovernmental organisation, the European Civil Aviation Conference (ECAC), also exercised important regulatory functions, particularly in technical matters. Finally, certain activities carried out by the International Air Transport Association (IATA), notably tariff coordination and interline agreements, were an additional obstacle to EC involvement. As the Commission itself recognised in 1979,

"the caution of governments and industries over initiating new measures without prior reflection on their necessity and ... advantages ... is understandable" (CEC, 1979, p. 3).

First Challenges to the Status Quo

The first, although indirect, challenge to the *status quo* came from the ruling of the European Court of Justice (ECJ) in the French Merchant Seamen case (EC Commission v France, Case 167/73).

Defending a provision in its Code du Travail Maritime that "*such proportion of the crew of a ship as is laid down by order of the Minister for the Merchant Fleet must be French nationals*", France had argued that since Article 84 (2) of the Treaty made it clear that the preceding provisions for rail, road and inland waterways did not apply to maritime transport, *a fortiori* it could be taken that the general provisions of the Treaty did not apply either. Rejecting this argument, the Court stated that the general rules of the Treaty applied to all economic activities in the Community except where there was specific provision to the contrary. Thus, whilst Article 84(2) did indeed make special provision for air and sea transport, these sectors remained subject to the general rules on the same basis as the other modes of transport.

Although not directly responsible, the "spill over" from this judgement prompted the Council of Ministers in June 1977 to establish an air transport working party to "*identify those areas of government activity which, with advantage, could be examined at Community level*" (CEC, 1979, p. 8). In 1978 the Council approved a list of nine priority areas but it is significant that of these nine, only three - competition, right of establishment, and possible improvements to inter-regional services - had any direct bearing on the economic regulation of the industry.

The Commission's Initiatives - The First Memorandum

Stimulated by the Council's activity and the first results of domestic deregulation in the United States the Commission issued a memorandum in July 1979 entitled "Air Transport: a Community Approach" (CEC, 1979). The memorandum was designed to provoke debate among the Community institutions and focused on the broad objectives of an air transport policy: a total network unhampered by national barriers; financial soundness for airlines; protection for the interests of airline workers; and "*improvements in conditions of life for the general public and respect for the wider interests of our economies and societies*" (CEC, 1979, p. 37).

Realising that change needed to be gradual the Commission outlined a limited number of actions which at Community level would benefit users and the sector and "*meet the demands of the Treaty of Rome*" (CEC, 1979 p. 37). These measures included:

- removal of some restrictions on the introduction of new scheduled services, particularly between regional airports;
- offering users a broader range of fares;
- protection of passengers for overbooking;
- establishing criteria for the granting of state-aids; and
- application of the competition rules to air transport.

Generally, the response to the proposals in the memorandum was negative. The European Parliament accepted that there was room for improvement in Community air transport but warned that reform should not interfere with the basic structure of the industry. The Association of European Airlines (AEA) suggested that the current system was adequate. Employee organisations "*felt that the memorandum had paid insufficient attention to the social problems of the industry*" (CEC, 1984, p. 7). The Council of Ministers' only reaction was to invite the Commission to focus its attention on a proposal for frontier crossing inter-regional services (See CEC, 1984, pp. 3-8 for a fuller account of reactions to the memorandum).

Despite this response, the Commission produced three follow-up proposals to the Council. Two of these, a draft directive on tariffs and a draft regulation on application of the competition rules to air transport, were rejected by the Council. The third, made in response to the Council's request, was a draft regulation regarding inter-regional services. The aim of this proposal was simply to remove these services from the bilateral structure and thus give airlines new opportunity to operate outside the trunk routes⁴.

The Council, content with the *status quo*, did not agree to the proposal as presented by the Commission. Instead, when the Council finally adopted legislation nearly three years later it was in the form of a directive (see Directive 83/416/EEC) and the substance was so diluted that "*it is questionable how much effect it will have in its modified version*" (CEC, 1984, p. 15).

Specifically, the Council limited the scope of the directive to services between regional airports whereas the Commission had proposed that it extend also to services from the regions to major, Category 1 airports (see Appendix A for the

⁴Trunk routes are the main routes between city pairs and were invariably operated by the flag-carriers of the two countries concerned.

classification of EC airports). As Table 1 shows, this change restricted its coverage to routes which carried less than 3 per cent of intra-Community scheduled traffic, as compared with 37 per cent in the Commission's proposal. Moreover, the liberalised services were to be operated by aircraft with no more than 70 seats, not by aircraft with up to 130 seats as proposed, and the minimum route distance was fixed at 400, not 200, kilometres. Further, the grounds on which a Member State could refuse to license a new service were extended by the Council. Additionally, the Council refused to adopt provisions which would have made it easier for airlines to obtain a licence from their own authorities. Thus the impact of the directive on competition on these routes was negligible.

Table 1 : Limitations of Regional Services, 1985

Airport pair category	European scheduled international traffic	
	No. of city-pairs	% of total traffic
1-1	214	63.0
1-2	222	23.8
1-3	256	10.7
2-2	35	1.3
2-3	49	0.9
3-3	31	0.4
Total	807	100.0

(Source: Association of European Airlines Yearbook 1985).

In essence the *status quo* was unaffected: state-owned airlines continued to dominate the industry, barriers to entering the market remained and competition was virtually non-existent. Nevertheless, adoption of the directive was significant in that it was the first measure concerning air transport that the Council adopted with Article 84(2) as its legal base. It was against this background that the Commission presented its Second Memorandum on Civil Aviation in 1984 (CEC, 1984). What the Memorandum proposed and how Member State governments responded will be discussed in detail in section four of the paper.

Section Three: Pressures for Change

Although the entrenched interests of Member States and of the airlines which they owned had largely succeeded in preserving the *status quo* into the mid-1980s, pressure for change from a variety of sources had been gradually growing. Business and commercial lobbies; air transport user groups; and some sectors of the industry itself began to demand policy reform. Additionally, European Court of Justice (ECJ) decisions reinforced these pressures. This section identifies the motives of the societal actors involved and shows how they pursued their interests. It also examines two major ECJ judgements and the impact they made on the policy process.

Increasing Transnational Activity and Demands

Modified neo-functionalist theory argues that societal actors engaged in cross-border transactions are the primary drivers of integration. This theory partially redeploys the combined insights of Deutsch and Haas. Deutsch (1964) views the "*societal exchange*" as a critical factor in driving the integration process, whilst Haas (1958) argues that politics are driven by interest groups which need integration in order to improve their situation. Both recognise that the lack of organisation at levels higher than those provided by the State will be seen as a barrier to the creation of wealth. Put in its simplest form, as intra-EC activity increases so will a demand for change from those societal actors most adversely affected by state-centric control of the sector. Therefore, in this case study, it is hypothesised that an increase in the level of intra-EC air traffic will provoke demands from those societal actors whose prosperity is most dependent upon intra-EC activity.

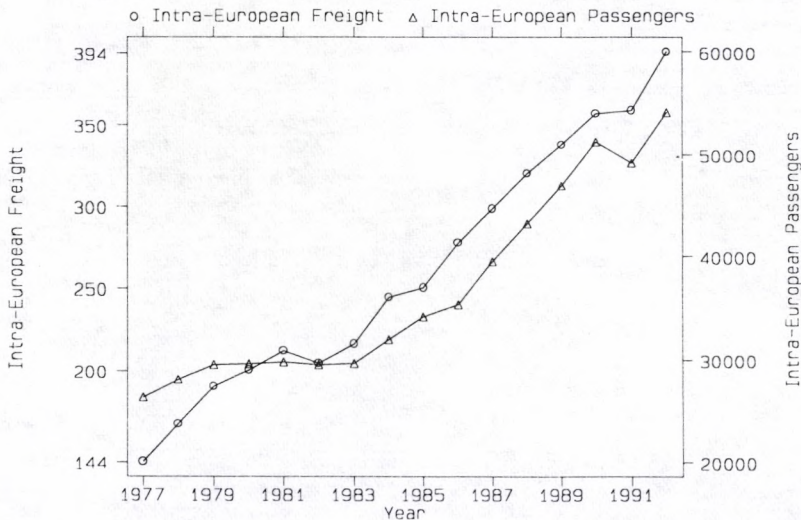
Figures 1 and 2 trace the parallel growth of intra-EC commercial activity and of air travel. This growth in air travel was partly in response to the increase in transnational activity created by the drive towards a single European market but also partly the means by which this increased activity was achieved. Yet for many transactors the licensed monopolies operated by the state-owned airlines were too costly and inadequate for their needs. They demanded a more efficient and economic air transport system and turned to the Community to provide it.

Thus, any explanation of the movement from rigid bilateralism to European rule-making must start from an analysis of why the state-centric regime in place failed to meet the needs of the societal actors involved.

Transnational Business

The opportunities presented by the breakdown of barriers to intra-Community trade created a demand which the state-centric airline system was quite unable to meet, for the following reasons. First, services provided on existing routes were inefficient and costly. Secondly, airlines were prevented from meeting demands for new services by the restrictions in the bilateral inter-governmental agreements. The frustrations of major business users found expression both at national and European level, with the International Chamber of Commerce arguing strongly for a policy of liberalisation and the Roundtable of European Industrialists saying that an efficient air transport system was essential for survival in an internationally competitive environment (European Roundtable of Industrialists, 1986, p. 11).

Figure 1
Passenger and Cargo Traffic Carried by Flag-Carriers on Intra-EC Routes 1977-1991

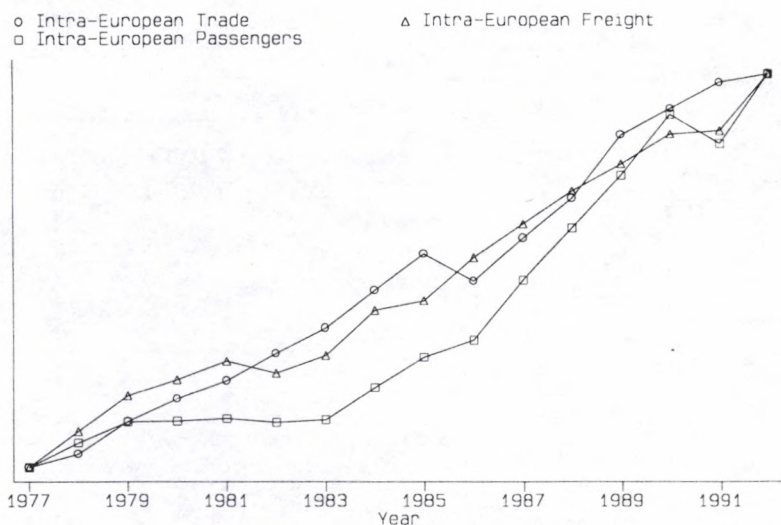


Intra-European Passenger Traffic=Revenue Passengers Carried (Thousands)
Intra-European Freight Traffic=Revenue Freight Tonnes (Millions)

The graph uses data for the nine flag-carriers of the EC, it does not include Greece, Portugal and Spain. Data from Association of European Airlines Statistical Yearbooks: 1977-1991.

Figure 2

Relationship Between Trade, Passenger and Cargo Traffic Carried by Flag-Carriers on Intra-EC Routes, 1977-1991



Intra-European Passenger Traffic=Revenue Passengers Carried (Thousands)

Intra-European Freight Traffic=Revenue Freight Tonnes (Millions)

The graph uses data for the nine flag-carriers of the EC, it does not include Greece, Portugal and Spain. Data from Association of European Airlines Statistical Yearbooks: 1977-1991. Trade data are from Eurostat: External Trade 1977-1991.

Transnational Consumer Groups

Groups specifically concerned with the interests of air passengers were slower to organise in Europe than in the United States, although one had been established in the UK as early as 1973, and others followed in Denmark in 1979, in Ireland and Italy in 1982, and in France and Belgium in 1983. More significant than these individual developments, however, was the creation in 1982 - largely at the Commission's instigation - of a Federation of Air Transport User Representatives (FATUREC). By 1984 FATUREC had constituents in all Member States and was holding regular consultations with the Commission's Directorate General for Transport.

At the non-specialist level, other trans-national consumer organisations were also becoming active. The European Bureau of Consumer Unions (BEUC) adopted *"an active and militant role in Community decisions on air transport"* (Wheatcroft and Lipman, 1986, p. 74) and in 1985 issued a report urging a multiple designation of airlines on all routes, an end to tariff consultations between airlines and their revenue pooling arrangements, and immediate application of the Treaty's competition rules. The UK-based Consumers in the European Community Group (CECG) was similarly critical both of the existing regime and the Commission's cautious response.

A commercial organisation, the International Airline Passengers Association, also adopted a militant stand as part of its "Freedom of the Skies" programme and in 1985 created a non-profit foundation to promote passengers' interests in the decision making process. This International Foundation of Airlines Passengers' Associations (IFAPA) campaigned vigorously for an increased choice of airlines, products, frequencies and fares.

Airlines

The Association of Independent Air Carriers in the European Community (ACE), representing fourteen privately owned carriers from six Member States, were even more insistent in their demands than the consumer organisations. Prevented by bilateral agreements from operating scheduled services they argued that government involvement in the running of the industry was no longer warranted: *"the industry [should] be allowed to evolve commercially in step with the changing pattern of demand for air transport services and ... governments [should] refrain from obstructing that natural process"* (House of Lords 1985, p. 270). They strongly criticised the Commission for its continual failure to implement the competition rules, making the telling point that the offending airlines and the Commission had a common "paymaster" in the Member States,

each and every one *"with a vested interest in the airline business"* (House of Lords 1985, p. 267).

The few scheduled carriers who were already operating in a liberalised environment, notably British Caledonian and British Midland, shared these views. The former argued that *"it is absurd and unacceptable for European countries to call for and obtain increased freedom and competition in manufacturing and other industries while maintaining restrictive, protectionist postures towards civil aviation"* (House of Lords 1985, p. 85). British Midland spoke of its satisfaction that the *"groundswell of resentment and frustration at the lack of competition is beginning to impress itself on governments, regulators and, of course, on the EC itself"* and it too appealed to the Commission to *"enshrine the legal principles required for a genuinely free market"* (Bishop, 1993 p. 1).

Failure of the Existing System

For each of these groups of societal actors, the regulated air transport system was inadequate. In every instance, it failed to meet their needs. The protectionist system meant that incumbent airlines were unable to adjust to the changing needs of transactors who needed an efficient air transport system to develop markets of European scale. Potential new entrants were excluded from entering the market altogether and charter airlines could not compete on a head-to-head basis with scheduled airlines for business traffic. Above all, a system which allowed neither choice nor competition meant that all users had to pay a high price for the industry's inefficiency. All these transactors looked to the Community for action and the Commission was ultimately able to utilise their demands to promote its own proposals.

European Court of Justice Decisions as a Causal Force

Article 84 (2) of the Treaty left it to the Council to

decide whether, to what extent and by what procedure appropriate provisions may be laid down for sea and air transport

and thus created a legal ambiguity that was to have far-reaching consequences for the application and development of EC law in this field (Dagtolglou 1994, pp. 42-5). This ambiguity was eventually resolved in a series of rulings by the European Court which played a decisive part in the integration process. As noted above, the Court had ruled in 1974, in the French Merchant Seamen case, that whilst Article 84 (2) made special provisions for air and sea transport these sectors were nevertheless subject to the general rules of the Treaty in the same way as all other

branches of Community activity. This ruling was subsequently confirmed and developed in two further cases.

The first was the Common Transport Policy case (*European Parliament v EC Council*, Case 13/83) [1986] 1 CMLR). Parliament had sought a declaration that the Council had failed to lay down the principles of the common transport policy prescribed by the Treaty. Although the Court found that the Council was in breach of its obligations to ensure freedom to provide services, it dismissed the rest of the application, saying that under the system laid down by the Treaty it was for the Council to determine

...the aims of and means for implementing a common transport policy. As part of [this] obligation ... the Council is required to make all the decisions necessary for the gradual introduction of such a policy, but the substance of those decisions is not determined by the Treaty...It is also for the Council to determine what priorities are to be observed in harmonising the laws and administrative practices in the sector and to decide what matters such harmonisation must cover. In that respect the Treaty gives the Council a discretion ([1986] 1 CMLR 138 pp.202-3).

The Court made no specific reference in its judgement to air transport. However, the Advocate General had stated in his opinion that he agreed "*with the applicant and the Commission that the obligation to adopt a common transport policy extends not only to transport by rail, road and inland waterway but also, as a matter of principle, to sea and air transport...* ". *Prima facie* it might be thought from the wording of Article 84 that the Council had complete discretion in these matters but in his view "*it has a discretion only as to whether and how far it wishes to derogate in respect of these two modes of transport from the provisions [for rail, road and inland waterways]*" ([1986] 1CMLR 138, p. 170). It was reasonably inferred from the Court's silence on this point that it was of the same view.

The second case, usually known as the *Nouvelles Frontières* case (*Ministère public v Lucas Asjes and others*, Cases 209-213/84 (1986), arose from criminal proceedings brought in France against a number of airlines and travel agencies. The accused were charged with infringements of the Civil Aviation Code (*Code de l'Aviation Civile*) for selling tickets at tariffs which had not been approved by the French Minister of Civil Aviation and which undercut tariffs which had been so approved. The Paris criminal court (*Tribunal de Police*) submitted the file to the Court, under Article 177 of the Treaty, for a preliminary ruling on whether the relevant sections of the Civil Aviation Code were in conformity with Community law, commenting *inter alia* that "*those provisions, which call for a concerted practice between airlines, undoubtedly have as their effect the prevention, restriction or distortion of competition within the Common Market*" ([1986]

3CMLR 173, p. 179). They were therefore, in its view, incompatible with Article 85 of the Treaty.

As the Advocate General stated in his opinion, the central issue raised by the case was "*whether the competition rules in the EEC Treaty are applicable to the fixing of the tariffs for Community and international air travel*" ([1986] 3CMLR, p. 177). In his view "*the question of the applicability of the general rules of the treaty to sea and air transport might well have been thought to be settled*" by the French Merchant Seamen judgement ([1986] 3CMLR 173 p. 196). Two airlines (Air France and KLM) had nevertheless argued against such a conclusion, claiming that the only general rules were in Part Two of the Treaty (concerning the Foundations of the Community) whereas the competition rules were contained in Part Three (Policy of the Community). However, the Advocate General stated "*that the entire Treaty, insofar as it is relevant, is, with the exception of the 'special provisions of the Title relating to air transport', applicable to air transport*" ([1986] 3 CMLR 173, p. 197).

Concurring with this opinion, the Court found that by requiring airlines to agree tariffs between themselves before submitting them for approval, the French government was in breach of Article 5 of the Treaty (which requires Member States to "abstain from any measure which could jeopardise the attainment of the objectives of the Treaty"). But it also declared that in the absence of any regulation applying the competition rules to air transport, the only way of enforcing these rules was by a "national authority" (the Tribunal de Police was not such an authority) acting under Article 88 of the Treaty or by the Commission acting under Article 89.

Implications of the Court's Judgements

Superficially, the Court's judgement in the *Nouvelles Frontières* case appeared to bring nothing new to consideration of the Commission's Second Memorandum. It confirmed that the general rules of the Treaty applied to air transport but it added nothing to the ruling in the *Common Transport Policy* case that it was for the Council to decide "*what priorities are to be observed in harmonising the laws and administrative practices in the sector and to decide what matters such harmonisation must cover*" ([1986] 1 CMLR 138, p. 203).

The real significance of the judgement lay, however, in its making explicit what had until then been merely a distant threat, that the Commission might make use of its powers under Article 89 to investigate cases of suspected infringements of Articles 85 and 86 and propose "*appropriate measures*" to bring any such infringements to an end. In other words, the judgement presented Member States

with a stark choice: becoming involved in the creation of a Community air transport policy or preserving their authority under constant threat of legal action and market chaos. As the Commission argued in the Second Memorandum, this was just what its proposals were designed to avoid.

Section Four: The Policy Process⁵

This section of the paper traces how air transport policy transferred from Member State governments control to EC authority: it outlines the proposals made by the Commission in the Second Memorandum; analyses the reactions of Member State governments and their preferences regarding these proposals; shows how supranational institutions - the Commission and the ECJ - exploited EC rules and the increase in transnational activity to forward the process of integration; and it examines the final policy outcomes.

The Commission's Second Memorandum

A majority of Member States governments were still strongly opposed to any reform of the air transport industry when the Commission made a fresh attempt in 1984 to reopen debate on a Community air transport policy. The "Civil Aviation Memorandum No. 2" (CEC, 1984) presented to the Council in March 1984 outlined a number of reasons for the initiative:

- an increase in consumer criticism of the existing regime had greatly increased since publications of its first memorandum (CEC, 1984,b p.1);
- the air transport sector had been in a severe recession for a number of years, thus causing airlines to question whether the present arrangements were in their long-term interests either (CEC, 1984, p. 9);
- developments in the United States since deregulation in 1978 had given consumers greater choice and created an increase in public satisfaction with the system (CEC, 1984, p. 12);
- there were growing doubts as to whether "*the present system is compatible with the Treaty of Rome*" (CEC, 1984, p. 1).

⁵I am indebted to civil servants in a number of Member States and to Commission officials involved in the negotiations for much of the material in this section. The interviews were conducted between October 1996 and January 1997. There is no published source material on this negotiation of which I am aware.

The Commission recognised that *"American-style deregulation would not work in the present European context"* (CEC, 1984, p. i). The US air transport industry differed in many respects from that of the EC: the United States were a large and unified market reserved to US carriers and it was American government policy to end governmental intervention in the market and to accept its social and economic effects. Furthermore, the United States had twenty major carriers, all operating on a commercial basis and *"the US Government can take a relaxed view on the fate of any one of them"* (CEC, 1984, p. 27). By contrast, in the EC the major airlines (the flag-carriers) were all owned, financed or otherwise supported by their governments and *"most, if not all, Member States would regard it as unthinkable that their airline should go out of business"* (CEC, 1984, p. 22). The Commission accordingly proposed an evolutionary approach, maintaining - at least for the time being - the bilateral structure of the existing regime but progressively introducing changes to make the system *"more flexible and more competitive in order to increase airline efficiency, allow the efficient and innovative airline to benefit, encourage expansion and thus employment, and better meet consumer needs"* (CEC, 1984, p. i).

Thus, the Commission made four proposals⁶, which it insisted should be adopted and implemented as a package. The measures were concerned with:

- the capacity and revenue sharing rules in bilateral agreements between Member States;
- fares for scheduled air transport between Member States;
- the application of the competition rules to EC airlines;
- the Commission's powers to grant block exemptions from these rules for certain categories of inter-airline cooperation.

Table 2 below summarises the attitudes of the principal actors to these proposals.

⁶The memorandum made no proposals on Member States' relations with third countries nor on their own internal arrangements.

The Deadlock Continues

The Council's first reaction to the second Memorandum was to charge a High Level Working Group, made up of Member States' Directors General of civil aviation and representatives of the Commission, with the task of assessing the Commission's various proposals.

In the interval since publication of the Commission's first memorandum there had been a marked shift in the position of the UK government, following the election in 1979 of a Conservative administration committed to a massive programme of privatisation and to "*exposing former state-owned companies*" more fully to the disciplines and opportunities of the market (Thatcher, 1983). A similar shift had also occurred in the Netherlands. These two governments thus considered that the Commission's new proposals did not go far enough.

Table 2: Actors and Preferences regarding Regulatory Reform of EC Air Transport (1984)

ACTORS	ACTOR PREFERENCES	
	Maintain status quo	Regulatory Reform
European Commission		X
"Liberal" MS		UK, Netherlands
"Illiberal" MS ^(a)	B, D, Dk, F, Gr, Irl, I, L, P, S	
State-owned airlines ^(b)	AF, AZ, EI, IB, LH, LG, OA, SN, SK, TAP	BA
Non state - owned airlines ^(c)		BC, BM, VA
Potential new entrants ^(d)		ACE
Major Businesses ^(e)		CC, ICC, ERI
Consumer Groups ^(f)		FATUREC, BEUC, CECG, IFAPA
Industry Trade Unions ^(g)	IFT	

(Source: Compiled by the author using material from submissions made to DG VII and various published sources)

- (a) B=Belgium, D=Federal Republic of Germany, Dk=Denmark, F=France, Gr=Greece, Irl=Ireland, I=Italy, L=Luxembourg
- (b) AF=Air France, AZ=Alitalia, BA=British Airways, EI=Aer Lingus, IB=Iberia, LH=Lufthansa, LG=Luxair, OA=Olympic, SN=Sabena, SK=SAS, TP=TAP-Air Portugal
- (c) BC=British Caledonian, BM=British Midland, VA=Virgin Atlantic
- (d) ACE=Association of Independent Air Carriers in the European Community
- (e) CC=National Chambers of Commerce, ICC=International Chamber of Commerce, REI=Roundtable of European Industrialists
- (f) FATUREC=Federation of Air Transport User Representatives in the European Community, BEUC=European Bureau of Consumer Unions, CECG=Consumers in EC Group, IFAPA=International Airline Passengers Association
- (g) IFT=International Transport Workers Federation

The other eight Member State governments thought they had gone too far "*and of these five or six thought that we had gone far too far*" (Steele, 1985 p. 133). The High Level Working Group met eight times during the Irish Presidency in the second half of 1984 but was unable to bridge this gap. Consequently, its report consisted of little more than a restatement of existing positions together with a set of guidelines for future action which for the most part merely reflected majority views.

Meanwhile, the UK, whose intra-EC passenger traffic activity had increased the most since 1979 (See Table 3 below) had become increasingly dissatisfied with the obstacles to any movement at Community level. It therefore embarked on negotiations to liberalise its bilateral agreements with those few other Member States thought likely to gain from a "Europeanized" air transport system. The breakthrough negotiation was signed with the Netherlands and came into force on 1 July 1984. It provided for any airline in either country to operate between the two without the need to seek government approval, whilst regulation of the frequency and capacity of services to be offered and of the fares to be charged was substantially relaxed. There followed a series of similar agreements, with Ireland, Belgium and Germany. This strategy was "*encouraged and supported*" (interview with a senior Commission official) by the Commission as they recognised it as one means of opening up the whole Community market without the formal agreement of the Council of Ministers. There is no doubt either that the UK also had the rather ambitious objective of using these agreements to drive forward the negotiations at Community level. Nevertheless, it was only during the Dutch Presidency in the first half of 1986 that this approach began to make progress.

Table 3: Flag carrier airlines' passenger and freight traffic increases from 1979-1987

Flag Carrier	Passenger Increases %	Freight Increases %
Aer Lingus/Ireland	3.28	-3.45
Air France/France	17.41	18.74
Alitalia/Italy	12.56	19.15
British Airways/UK	23.07	14.55
Iberia/Spain	6.6	21.34
KLM/Netherlands	10.22	23.36
Lufthansa/Germany	18.06	30.75
Luxair/Luxembourg	0.85	n/a ^(a)
Olympic/Greece	5.35	14.55
Sabena/Belgium	1.82	3.56
SAS/Denmark	16.34	2.02
TAP Air Portugal/Portugal	2.57	5.83

(Source: Compiled by author using data from AEA Statistical Yearbooks, 1979 and 1988.

(a) n/a Data not available.

Although recognising the significance of the pressures driving the integration process, credit must be given to the tactical skills deployed by this Presidency and the following UK Presidency in forwarding the Commission's argument and achieving the ultimate agreement. The Dutch did not get agreement on specific proposals but did succeed in incorporating the following paragraph into the conclusions of the European Council held at the Hague on 26-27 June 1986:

The European Council concluded that the Council of Ministers (Transport) should make a further effort to overcome the difficulties which have recently appeared in relation to the liberalisation and harmonisation of land, sea and air transport, in light of the relevant judgements of the European Court of Justice. With regard to air transport, the Council of Ministers should without delay adopt the appropriate decisions on air tariffs, capacity and access to markets, in accordance with the rules of the Treaty. (European Council, 1986, 34th Meeting).

Whilst some Heads of State and Government may not have realised the extent to which this commitment conflicted with their existing policy positions, it provided the United Kingdom with the lever that it needed during the next six months.

The Bargaining Process Begins

Working closely with the Commission throughout its Presidency, the UK government deliberately devised a "stick and carrot" strategy to persuade the reluctant governments of the need to do a deal.

The British had concluded that the Commission's proposals would have little practical effect unless the package contained greater provision for new airlines to enter the market and also provided existing airlines with the opportunity to fly new routes. They recognised, on the other hand, that the inclusion of such provisions would radically alter the impact of the package and would make it harder for unwilling Member State governments to accept. In consequence, they deliberately set out to re-balance the package in two respects, first by reducing the scope of the original proposals on fares and capacity sharing arrangements and secondly by putting greater emphasis on the Commission's right to exempt certain types of inter-airline cooperation from the application of the competition rules. The aim was to make the texts on fares and capacity more closely resemble existing arrangements, thereby offering Member States a "comfort blanket", and at the same time to give assurances that various cooperative arrangements between carriers would be safe from action under Article 85 of the Treaty (interview with former British civil servant).

Exploiting ECJ Decisions

The value of this assurance was emphasised when the Commission became more overtly "militant" in its approach. Exercising its powers under Article 89 the Commission overtly "*sent letters*" to the major European airlines, detailing activities which they considered to be contrary to Article 85 and demanding their modification or abandonment within the next two months (see Wheatcroft and Lipman, 1986, p. 60; McGowan and Seabright, 1989 and Berlin, 1992 for details of this action). Clearly, the Commission recognised that it would be impossible for the airlines to disengage so quickly from commercial and operational relationships developed over many years. In reality, the threat was directed more at governments. This was confirmed in a statement by Sutherland, Commissioner for Competition:

The decision in the Nouvelles Frontières case will, we hope, for the first time clarify the obligation under the Treaty of governments and airline companies -

a recognition that there can be no standing still on liberalisation. We shall continue pressing the Commission reform plans for air transport but the Court decision should force governments to action in this vital area. (Sutherland, 1986)

The threats achieved the Commission's desired outcome, at least in the case of the French government. The German government also now wanted an agreement but it seems less in response to the legal threat than to lobbying by the Chambers of Commerce. As Table 3 above shows, Germany depended particularly heavily on air transport: its intra-Community traffic grew by 18 per cent between 1979 and 1987, whilst freight traffic increased by 30 per cent, significantly more than in any other Member State.

Thus, by the autumn of 1986 the balance of forces within the Council had dramatically changed, with Germany and France joining the United Kingdom and the Netherlands in accepting the need for agreement. Recognition of what they now saw as inevitable did not imply acceptance of the whole package and hard bargaining still lay ahead on issues such as the degree of pricing freedom to be allowed to airlines and the scope for multi-designation of airlines on trunk routes. However, these problems, although important to all governments, were not the main remaining obstacle to agreement. Although four of the smaller Member States - Belgium, Ireland, Luxembourg and the newly joined Portugal - had by now also indicated their willingness to do a deal, four others - Italy, Greece, Denmark and the other new member Spain - were still firmly opposed. Paradoxically, their opposition centred not on a Commission proposal but on one which had been introduced by the UK Presidency (and which the Commission had previously failed to get included in the directive on inter-regional services): Community air carriers should have a right, under certain conditions, to operate services between Category 1 airports in one country and regional airports in another. This was an innovation which at the same time would provide market opportunities to airlines which had previously been frustrated by bilateral restrictions and would facilitate the development of new business across national boundaries.

Italy and Spain based their objections on the inadequacy of existing infrastructure to cope with the increased traffic which they feared this innovation would generate. They said, however, that they might be able to agree once air traffic control systems and facilities at their regional airports had been improved.

Denmark argued differently. All services to its regional airports were provided from Copenhagen and passengers flying to or from other countries paid the same fare as they would pay to or from the capital. Allowing airlines from other Member States to operate directly to its regions would unbalance a system which

had promoted uniform economic development throughout the country; some areas would benefit whilst others would not. Greece's opposition straddled these positions. It argued that there was no capacity at its two main airports, Athens and Thessalonika, to take additional traffic, although like Italy it claimed that developments already planned would make this a comparatively short-term problem. Its other objection was fundamental. The country's economic development depended largely on the provision of year-round air services between the mainland and the Greek Islands, yet the traffic was largely seasonal. If airlines other than Olympic, the national flag-carrier, were allowed to cream off the lucrative summer traffic, it would no longer make the profits necessary to offset the heavy losses incurred during the winter months on what were already unprofitable routes overall.

Since all four Member States governments said that they were unable to agree, and since Article 84(2) of the Treaty required all Council decisions on air transport to be taken by unanimity, it appeared that the deadlock would continue. The Commission continued to insist that its proposals, including the regional airports provision, made a single package and in particular that the granting of block exemptions from the competition rules was dependent on an overall solution. The other Member State governments, now fearful of the consequences of failure, insisted that a way must be found of solving these major problems and made it clear that they were ready to settle the other remaining difficulties. The circumstances had been created for a solution if the Commission could find a means of persuading Italy, Spain, Greece and Denmark to accept.

A Deal is Done

The compromise was that all the airports cited by these four governments would be excluded from the regional airports arrangement during the first stage of liberalisation (or in the case of the Greek Islands indefinitely), on the understanding that further measures would be adopted not later than mid-1990 and the internal market for air transport completed by 1992.

It was on this basis that agreement was finally reached during the Belgian Presidency in 1987, although a last minute dispute between the United Kingdom and Spain on the status of Gibraltar airport meant that the package did not take effect until the beginning of 1988.

What the Negotiations Achieved

The package finally adopted by the Council of Ministers consisted, as the Commission had originally proposed, of four measures: two Regulations

concerning the application of the Competition rules to air transport; a Decision on capacity sharing between EC airlines on scheduled intra-Community services and on market access to intra-Community routes; and a Directive on fares for scheduled air services between Member States (see OJ No L374 of 31.12.1987 for full texts).

The main features of the measures were as follows:

Fares

- (i) "Reference fares⁷" were to remain subject to approval by the aeronautical authorities of the Member States concerned. However, the Directive allowed for consultation and, if necessary, arbitration if disagreements occurred. Initially the Commission saw no necessity to provide for arbitration but those governments which saw it as the best available means of blocking opposition to the introduction of lower fares insisted upon its inclusion.
- (ii) Carriers were given freedom to charge less than the reference fare (down to 65% of the fare in a "discount zone" and down to 45% in a "deep discount zone") to passengers satisfying certain very restrictive conditions. These were deliberately designed to make it difficult for business travellers to obtain a cheaper fare, for instance by requiring a minimum stay of six nights or over a Saturday night.

The Sharing of Capacity on Intra-Community Services and Carriers' Access to Routes between Member States

- (i) In any bilateral relationship, the carriers of one of the states concerned should be allowed to increase their share of the total capacity offered to 55% and to 60% after 1 October 1989. The carriers of the other state should have the right to bring their capacity into line. The whole process could occur twice.
- (ii) However, if the initial move to a 55/45 split led to serious financial damage for the carriers providing the lesser share, the Commission could veto any further movement. Its decision could be over-turned by the Council acting unanimously.

⁷ In nearly every case the "reference fare" was the normal economy fare.

- (iii) Every Member State must accept the designation of more than one airline by another State to operate between the two countries but need not do so on any one route, except where the number of passengers carried on that route exceeded a certain threshold (250,000 in the first year, reducing in each of the next two years to 180,000 in year three).
- (iv) Subject to the foregoing provisions, EC carriers should be allowed to introduce services between Category 1 airports in their own home state and a regional airport in another - or vice versa. In such cases, a carrier from the other Member State concerned could claim reciprocal rights. Any capacity provided by aircraft with not more than 70 seats should not be taken into account for the calculations made under points (i) and (ii). (These provisions were qualified by the exemptions outlined in the preceding section).
- (v) In certain closely defined circumstances carriers should be allowed to operate fifth freedom services⁸ (i.e. services between two Member States other than their state of registration) but only where such services were operated as an extension of a service from, or a preliminary to a service to, their home state.
- (vi) The rights conferred under points (iii), (iv) and (v) could be refused by a Member State in cases where the airports concerned had insufficient facilities to accommodate the proposed services or where navigational aids were inadequate.

Application of the Competition Rules

The Council adopted two Regulations. One outlined the procedures for applying the competition rules to the air transport sector (but only in respect of international transport between EC airports). The second provided for the Commission to grant time-limited block exemptions from these rules to certain categories of inter-airline agreements and concerted practices.

To a large extent, the first Regulation followed the model established for the other sectors of the EC economy, but three points are noteworthy:

- (i) The recitals, referring to the "*specific features of air transport*", stated that it would in the first instance be for the undertakings

⁸See Appendix B for a full list of the freedoms of the air.

themselves to ensure that their practices conformed to the rules and thus that notification to the Commission "*need not be compulsory*".

- (ii) An annex to the Regulation included a non-exhaustive list of inter-airline practices which, insofar as their sole objective was to achieve "*technical improvements or cooperation*", were excluded from the prohibitions in Article 85(1) of the Treaty.
- (iii) The Commission was given the right to fine airlines up to 10% of their annual turnover for intentional and negligent infringements of the competition rules or for breach of conditions attached to any block exemptions which it had granted.

There was much dispute as to what should go into the second Regulation. The Commission insisted that it alone had the right to define what types of activity should be given block exemptions. Member State governments, wanting time for the industry to adapt to more competitive conditions, did not agree. Accordingly, they demanded that the regulation should list the types of inter-airline agreement to be exempted. Eventually, a compromise was reached whereby the Commission agreed to the inclusion of a list but the Member States accepted that the Commission alone should define the terms on which the exemptions would be granted.

The list specified eight types of activity, including consultations on tariffs and conditions of contract; the joint planning and co-ordination of capacity; revenue sharing arrangements; and the allocation of landing and take-off slots at congested airports. The other were of a more technical nature, e.g. on ground handling arrangements.

Significance of the Agreement

The significance of the measures adopted by the Council in December 1987 lies less in the immediate changes which they brought to the market place than in their considerable transfer of competence from Member State authorities to the European Community. This was highlighted by their reaffirmation of the European Council's commitment to complete the internal market for air transport by 1992 and a recognition that the measures represented only "*a first step in this direction*". The Council accordingly stated that in order to achieve the 1992 objective it would "*adopt further measures of liberalisation at the end of a three year initial period*" (see, for example, the recitals to Council Regulation (EEC) No. 3976/87, OJ No. L374 of 31.12.1987, p. 10). Further packages were subsequently adopted in July 1990 and in July 1992 and the last internal barriers

will be removed on 1 April 1997 (see Appendix C for a summary of their contents). Meanwhile, a series of complementary measures have also been adopted, the most important of which have introduced common rules for the operation of computer reservation systems (CRS), for the allocation of slots at Community airports and for the payment of denied boarding compensation to victims of overbooking. With a few exceptions, notably air traffic control, every aspect of the industry's activity is now within the competence of the European Community.

Section Five: Conclusions

This paper set out to explore the process whereby competence for air transport policy within the EC has been transferred from Member State governments to Community institutions and to assess the extent to which the two dominant integration theories - intergovernmentalism and modified neo-functionalism - can explain why this happened.

Intergovernmentalists argue that the Member State governments are the dominant and most powerful players in the integration process. Domestic political preferences are therefore reflected in EC policy outcomes and the main purpose of the Community is to provide an arena for intergovernmental bargaining. The supranational institutions merely follow the preferences of the dominant Member State governments, and the speed of progress is determined by the most reluctant Member State. If Member State governments do not want integration in a specific policy sector, then it will not occur. However, this apparently was not the situation in the air transport sector.

The research has shown that a majority of Member State governments were content with the *status quo*, a bilateral system which had existed almost as long as the industry itself. In national arenas air transport remained a reserved realm based on a socio-politico-economic rationale. Air transport provided public services and employment, helped maintain state security and opened a gateway to trade and commerce. Unwillingness to change was clearly reflected in the strong opposition which thwarted the Commission's first attempts to reform the system in 1979 and 1984. Despite continued reluctance by a majority of Member State governments the Commission finally succeeded in gaining unanimous agreement to a package of liberalising measures which were more far reaching than any previously proposed. The findings of this paper thus challenge the postulates of intergovernmentalism that Member State governments are in total control of the integration process. Their reluctance to change should have been enough to halt the process. Tracing the policy process, it is clear that in the case of air transport

they were unable to do so. Thus other important variables outside their direct control must account for the dynamics of integration in this sector.

The empirical investigation suggests that the three variables upon which modified neo-functionalism focuses - transnational activity, EC norms and EC institutional action - largely account in this policy sector for the transfer of control from the Member States to the European arena. The research has shown how independent transnational actors were instrumental in driving the integration process forward. As intra-EC activity - trade, passenger and freight traffic - increased, the uncompetitive complex bilateral air transport system became increasingly costly and inefficient for the growing number of transactors - major business users, private consumers, cargo shippers - who depended for their prosperity upon transnational trade. These groups, organised at European level, forged alliances with the Commission and worked to make Member State governments recognise the need for a supranational policy. Pressure from transnational actors was coupled with legal pressure from decisions by the European Court of Justice. Whilst intergovernmentalists would recognise the importance of these rulings, they would argue that they operate within well defined parameters as mapped out by the most powerful and influential Member State governments. However, in this instance the rulings were not congruent with the preferences of the larger and more powerful Member States, i.e. Germany and France. The Commission made use of them in subsequent bargaining between itself and the reluctant Member States. Acting autonomously of Member State preferences it also used its powers under Article 89 of the Treaty to threaten a unilateral enforcement of the competition rules to air transport. Thus, a combination of transnational pressures and threats of legal action forced Member State governments to overcome their opposition to change.

Analysis of the air transport case shows that in this area at least modified neo-functionalism provides a better explanation than intergovernmentalism for the transfer of competence from Member State governments to the European Community.

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Appendix A

EC Classification of Airports Open to Scheduled International Traffic

State	Airport	Airport Category
Belgium	Bruxelles-Zaventem	1
Denmark	Kopenhagen-Kastrup/Roskilde	1
West Germany	Frankfurt/Rhein-Main	1
	Dusseldorf-Lohausen	1
	Munchen-Riem	1
	Hamburg-Fuhlsbuttel	2
	Stuttgart-Echterdingen	2
Greece	Koln/Bonn	2
	Atina-Hellinikon	1
Spain	Thessaloniki-Micra	1
	Palma-Mallorca	1
	Madrid-Barajas	1
	Malaga	1
	Las Palmas	1
	Tenerife-Sur	2
	Barcelona; Ibiza; Alicante; and Gerona	2
France	Paris-Charles de Gaulle/Orly	1
	Marseilles-Marignane	2
	Nice-Cote d'Azur	2
	Lyon-Satolas	2
	Basle-Mulhouse	2
Republic of Ireland	Dublin	1
	Shannon	1
Italy	Roma-Fiumicino/Ciampino	1
	Milano-Linate/Malpensa	1
	Napoli-Capodichino	2
	Venezia-Tessera	2
	Catania-Fontanarossa	2
Luxembourg	Luxembourg-Findel	2
Netherlands	Amdsterdam-Schiphol	1
Portugal	Lisbon	1
	Faro	1
	Funchal	2
	Oporto	2
UK	London-Heathrow/Gatwick/Standstead/Luton	1
	Manchester-Ringway	2
	Birmingham-Elmdon	2
	Glasgow-Abbotsinch	2
All other airports open to scheduled international traffic		3

(Source: EC Decision on Capacity Sharing and Market Access No 602/87
OJ No. L374 of 31.12.1987 p. 25)

Appendix B: Freedoms of the Air

<i>First Freedom:</i>	The right to fly over another country without landing.
<i>Second Freedom:</i>	The right to make a landing for technical reasons (e.g. refuelling) in another country without picking up/setting down revenue traffic.
<i>Third Freedom:</i>	The right to carry revenue traffic from your own country (A) to the country (B) of your treaty partner.
<i>Fourth Freedom:</i>	The right to carry traffic from country B back to your own country A.
<i>Fifth Freedom:</i>	The right to carry traffic between two other countries other than its own.
<i>Sixth Freedom:</i>	The use by an airline of country A of two sets of third and fourth freedom rights to carry traffic between two other countries but using its base at A as a transit point.
<i>Seventh Freedom:</i>	These rights are also known as cabotage rights. The right of airline of country A to carry revenue passengers between two points in country B that is to say to provide domestic services in a country that is not your own.

(Adapted from Doganis, 1991, p. 346).

Appendix C: Liberalisation of the EC Aviation Industry

DEREGULATORY ACTION		1st Package 1987	2nd Package 1990	3rd Package 1992
GEOGRAPHICAL SCOPE				
Regional airports	X	X	X	X
Regional/main airports		X	X	X
Main airports			X	X
Domestic				X
TRAFFIC RIGHTS				
Multiple Designation		X	X	X
3-4 Freedoms	X	X	X	X
5 Freedom		X	X	X
6 Freedom			X	X
7 Freedom				X ^(a)
TARIFFS				
Close Relatedness	X	X	X	
Flexibility Zones		X	X	
Double Disapproval			X	
Matching		X	X	
Free Pricing				X
CAPACITY				
60-40		X		
60-40+			X	
Free	X			X
AIR CARRIER LICENSING				
Economic Fitness				X
Technical Fitness				X
Ownership				X
Leasing Rules				X

(a) From 01.04.97

(Source: Present author's table using data from the "three packages" of aviation liberalisation).



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